

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-06 ISO-00 AID-05 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 H-02 PA-01 PRS-01 /093 W

----- 118125

R 300821Z MAY 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 485

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY SEOUL

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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E.O. 11652 N/A

TAGS: N/A

TAGS: EFIN, JA

SUBJECT: TOKYO FOREX MARKET DEVELOPMENTS IN MAY

PASS TREASURY FOR WIDMAAN AND SPRINGBORN

1. AZOKYO FOREX MARKET HAS REMAINED QUIET THROUGHOUT MAY.
MOVEMENTS IN CENTRAL OVERNIGHT RATE HAVE BEEN VERY SMALL
RANGING BETWEEN 292.10 YEN/DOL AND 290.85 YEN/DOL DURING
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MONTH. DAILY SPOT VOLUME HAS RARELY EXCEEDED \$100 MIL

AND CENTRAL BANK HAS NOT INTERVENED AT ALL.

2. FORWARD MARKET HAS BEEN MORE ACTIVE DURING MAY THAN IN EARLIER MONTHS. IN PARTICULAR THE DISCOUNT ON 2MONTH FORWARD DOLS WHICH EMERGED IN LATE APRIL AND EXCEEDED 4 PERCENT PER ANNUM IN EARLY MAY ATTRACTED A CONTINUING INFLOW OF ARBITRAGE FUNDS, PRIMARILY FROM EUROPEAN MERCHANT BANKS WHICH WERE BUYING HAS CAUSED DISCOUNT ON 2-MONTH FORWARD DLS TO VIRTUALLY DISAPPEAR. DISCOUNTS ON 3-MONTH AND 6-MONTH FORWARD DOLS HAVE ALSO VANISHED IN PAST WEEK. INFLOW OF ARBITRAGE FUNDS NOT WELCOMED BY BOJ WHICH ON MAY 26 "SUGGESTED" MORE FIRMLY TO SECURITIES DEALERS THAT SALES OF SHORT-TERM GOJ BILLS TO FOREIGN INVESTORS SHOULD BE "RESTRAINED." WITH INFLOW OF ARBITRAGE FUNDS RESTRICTED, GOJ OFFICIALS SUGGESTED SLIGHT DISCOUNT ON FORWARD DOLS MIGHT SOON REEMERGE.

3. THE BOJ OFFICIAL CITING DULL TONE OF BOTH EXPORT AND IMPORT TRADE, AS WELL AS LACK OF LARGE DIVERGENCES BETWEEN SPOT AND FORWARD RATES, SAID CALM MARKET WITH OVERNIGHT RATE AROUND 290 YEN/DOL LIKELY TO CONTINUE THROUGH SUMMER. IF MOVEMENT IN RATE DID OCCUR, HE NOTED APPRECIATION OF YEN.

4. EMBASSY COMMENT: BOJ OFFICIALS AND JAPANESE IN GENERAL VIEW YEN RATE SOLELY IN RELATION TO DOL. ONE REASON IS THAT TRADE WEIGHTED AVERAGE EXCHANGE RATE MOVEMENT IS NOT COMPUTED. WHEN SENIOR BOJ OFFICIALS WERE SHOWN TABLE OF TRADE WEIGHTED EXCHANGE RATE COMPUTED BY TREASURY, THEY PROFESSED SURPRISE THAT AT END OF APRIL DEPRECIATION OF YEN SINCE FEB 1973 REALIGNMENT WAS ALMOST AS LARGE AS UK POUND. OFFICIALS WERE WELL PLEASED THAT FOREX MARKET NOW ABLE TO OPERATE "ON ITS OWN" WITHOUT WIDE SWINGS IN RATE AND WITHOUT, AS IN THE PAST, VIRTUALLY CONTINUOUS OFFICIAL INTERVENTION, OFFICIALS HAD NO DESIRE FOR JAPAN TO RETURN TO A FIXED RATE --- AN EMERGING VIEW WHICH EMBASSY FORESAW AS EARLY AS 7/2/73 (TOKYO 8319).

5. FOLLOWING ARE DATA FOR OVERNIGHT SPOT (CENTRAL) AND FORWARD DOL RATES FOR MAY 5-30 (E.E. SINCE LAST LIMITED OFFICIAL USE

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REPORTED TOKYO 5959).

FORWARD DOLLARS			
CENTRAL	(AS DISCOUNT		
SPOT RATE	IN PCT. P.A.)		
(YEN/DOL)	3-MO	6-MO	

WEEK OF MAY 5-9:

HIGH	291.50	1.03	0.63
LOW	291.60	1.65	0.76

WEEKLY VOL IMIL DOLS: SPOT 356, FWD 383, SWAP 467

WEEK OF MAY 12-16:

HIGH	291.70	1.16	0.72
LOW	291.15	1.44	1.10

WEEKLY VOL MIL DOLS: SPOT 459, FWS 468, SWAP 622

WEEK OF MAY 19-23:

HIGH	292.10	0.21	0.34
LOW	291.20	1.63	1.06

WEEKLY VOL IN MIL DOLS: SPOT 490, FWD 528, SWAP 648

WEEK OF MAY 26-30:

HIGH	291.70	PREM 0.55	043. 0.31
LOW	290.85	DISC 0.89	DISC 0.48

WEEKLY VOL I MIL DOLS: SPOT 445, FWD 468, SWAP 420

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